

# Foreign Direct Investment on Export of Leather and Leather Products in India

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**Abstract:** Globalization brought the foreign direct investment which often made in developing countries and open economic countries like India. It offers an adept workforce and yield flourishing prospects for the investor. A foreign investment prospers domestic markets and induces to get into global markets as well as to enhance and experience the international trade exposure. FDI also introduces more substantial benefits like inventive products, technology, job opportunity, expansion of trade and helps to build FOREX reserve to satisfy the trade deficit. The leather and leather products industry has got inherent potential for FDI inflow. The leather industry in India considered as a major accord to Indian economy, which accounts for 12.9% of the global leather production. Annually produces around 3 billion sq.ft of hides and skins, contributes 9% of the global footwear production annually produces 2257 million pairs and 11% of the world's goat and sheep population. The leather and leather products industry is providing employment for more than 4 million people. FDI inflow in leather and leather products industry has reached from \$51.58 million to \$193.7 million during the years 2005 to 2019. The study examines the export trade performance of leather industry and the impact of FDI inflow in leather industry. This research work will further analyze the relationship between foreign investment and International trade of leather and leather products in India. The findings and interpretation of the study will provide additional inputs in existing policy framework. To testify this argument two way Anova and correlation are used.

**Keywords:** Leather, Export, Foreign direct investment, International trade.

## I. INTRODUCTION

Leather and leather products have always been used by humans since 3000 BC and always been a significant for luxury and fashion utility, and still regarded as a sign of supremacy and esteem. Leather not only as a trade commodity in India it also plays an indispensable part, where Scriptures of the Vedas found first in leather documented evidence. Apart from trade connection India is having a Holy Bondage with the leather. The Indian leather industry found to be one of the oldest manufacturing industries. From the middle of nineteenth century Indian leather merchants started expanding their business in international markets. Leather export in India has been a well earning industry amongst other existing industries. In India Tamilnadu, Uttar Pradesh, West Bengal, Haryana and Kerala are major leather producing states located with the provisions of resources and technology to muster the raw hides and skins from entire country along with

tanneries. Among the above states Tamilnadu tend to be the major contributor and enjoys the prestige in finished leather goods in global market. In Tamilnadu Vellore District and several clusters like Ambur, Vaniyambadi, Ranipet, and Pernambut major deals with raw hides and skins. A vast job opportunity and gender equality workforce generated and contributed from Tamilnadu. India stands second in global footwear manufacturer with billions of pair's production annually with high-end finishing and low cost, Indian footwear industry major focuses on men's shoe wears. Along with Leather footwear exports, Indian leather industry consists of finished leather goods, Footwear component, Leather garment, Saddlers and Harness exports. India is having export trade business with 100+ countries in planet includes Italy, Hong Kong, China, Vietnam, Korea, Malaysia, Spain, Indonesia, Germany, Portugal, Turkey, USA, U.K, France, Netherland, UAE, Poland, Belgium etc. As well as the leather import in India, the hides and skins like Pelli Bovine cow leather, Arbitao Grain leather, Cow finished leather, Goat finished leather are major imported from Thailand, Italy, Argentina, Brazil. These imported leather hides are being used most on luxury articles and used for the Car interior leather wraps by opulence automobile companies.

The leather industry in India contributes major share to economy and GDP. It accounts for 12.9% of global leather requirement supplied by the Indian leather industry and 9% of footwear production. The export of leather and leather products has reached up to \$5.74 billion. FDI inflow to leather and leather product industry are allowed 100% under automatic route. The foreign investment in leather sector helps to flourish the domestic market, to move international market and enhance their trade globally. At present the Indian leather industry has got a great exposure for foreign direct investment inflows. Currently the foreign investment inflows and technology transformations are spree to economy. The future of industry has a huge potential and growth for both international and domestic markets.

## II. IMPORTANCE OF THE STUDY

The research work is a paradigm, since leather industry in India is found to be one of the oldest manufacturing industries, which was folded in traditional craft got transformed in to modern vibrant export industry. The Industry holds a foremost position among other manufacturing industries in India and also occupies a prominent position in global leather market. The research work will help to find out the factors that are responsible for the exceptional and phenomenal performance of leather trade. Also, leads to find out the reason

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that what makes a solitary commodity to perform remarkably in global trade. To justify the above, a meticulous study is required to pin their role in global trade.

### III. REVIEW OF LITERATURE

Priya Manchada., Reeti Gaur (2016) in their research work “A Study on Impact of MAKE IN INDIA initiative in India” the researcher made an attempt to exhibit the impact of Make in India initiatives on FDI inflow, with the statement that the government sought to reduce the policy restriction and barriers for Global trade. From the research work, it’s distinctly found that MAKE IN INDIA initiatives increase the FDI inflow across various sectors and liberalized international trade. My study has given the clear knowledge and examined, how foreign direct investment impacts on leather exports performance during the period 2008-2018 which has not been found in any previous research history.

According to Dr. Ritika Dhiman, by analyzing the paper “A Study of FDI on Retail Sector in India” Based on the study the researcher trying to make a point why FDI plays an major role in the global market and how the foreign investment is beneficial to the host country and also examined the FDI impact on retail sector. The personal view of researcher has concluded that ‘it should be allowed’. Big retail chains are going to hire a lot of people, so in short run, there will erupt in job opportunity and also stated that the government should not prevent or encourage the small shopkeepers doing business unless there is a genuine reason to do so. Though the researcher has given many findings in sector-wise fragmentation including footwear but fails to add the leather sector, where my study gives the meticulous knowledge about the industry trade performance and FDI inflow for a decade.

Swati Singh . , Dr. Devesh kumar ., conducted a research on “Trends and patterns of Top Five sectors attracting highest FDI inflow in India “where they have described the trends and

patterns of selected sectors and justified the argument with multiple analysis conducted. The sectors included in the study are Services, Housing, Telecommunication, Computer and automobile found attracts more foreign investment. Their study are limited with very few variables and methodology, the major concern is leather is found to be one of the major export earner of the country which should be included in the study.

### IV. OBJECTIVES OF THE STUDY

- To examine the trade performance and FDI inflow of leather and leather products in India.
- To analyze the factors influencing the export of leather and leather products in India.

### V. METHODOLOGY OF THE STUDY

The research work carried out is analytical and empirical in nature. The study is completely based on secondary data gathered from various sources like journals, and websites particularly from the council of leather exports, Ministry of commerce & industry, Govt. of India and Department of industrial policy and promotion. The tool such as ANOVA and correlation are used to analyze the data.

### VI. PERIOD OF THE STUDY

The period of the study was 2008-2009 to 2018-2019.

### VII. DATA ANALYSIS AND INTERPRETATION

The fact sheet on leather and leather products exports as follows

Table 1 Export performance of leather and leather products from India 2008 to 2019 (value in Million US\$)

Year	Finished Leather	Leather Footwear	Footwear Components	Leather Garments	Leather Goods	Saddlery and Harness	Non-Leather Footwear	Total Leather Export
2008-2009	673.37	1243.78	246.35	426.15	873.3	92.15	43.53	3598.64
2009-2010	625.54	1254.37	209.13	428.52	756.02	83.39	44.01	3400.97
2010-2011	841.13	1470.87	229.87	425.04	855.78	87.92	57.93	3968.54
2011-2012	1024.69	1715.17	2079.14	572.45	1089.71	107.54	80.27	6668.97
2012-2013	1093.73	1693.89	245.86	563.54	1180.82	110.41	127.16	5015.41
2013-2014	1284.71	2035.45	320.15	596.15	1353.91	145.54	202.06	5937.97
2014-2015	1329.05	2278.18	361.29	604.35	1452.84	162.7	306.44	6494.85
2015-2016	1046.45	2147.98	284.34	553.11	1370.04	146.38	306.74	5855.06
2016-2017	886.39	2128.87	298.69	535.66	1316.63	142.35	338.21	5665.91

<b>2017-2018</b>	874.23	2193.61	335.24	518.96	1365.33	155.88	296.68	5739.93
<b>2018-2019</b>	721.73	2195.47	319.1	468.48	1434.24	159.35	392.63	5691
<b>Mean</b>	945.55	1850.69	448.11	517.49	1186.24	126.69	199.61	5276.11
<b>SD</b>	222.91	372.98	517.78	65.84	242.17	29.24	126.82	1080.64
<b>CAGR %</b>	0.63	5.3	2.38	0.86	4.61	5.1	22.13	4.25

Source: Computed

**Interpretation**

The above table 1 reveals that during the period of 2008-2009 to 2018-2019 the export of finished leather ranges from Rs.673.37 million to Rs.721.73 million, with a mean of Rs.945.55 million and standard deviation of Rs.222.91 million and stood first, followed by the export of leather footwear ranges from Rs 1243.78 million to Rs.2195.47 million, with a mean of Rs.1850.69 million and standard deviation of Rs.372.98 million and stood second. The export of footwear component ranges from Rs.246.35 million to Rs.319.1 million, with a mean of Rs 448.11 million and standard deviation of Rs 517.78 million and stood third. Export of leather garments ranges from Rs 426.15 million to Rs 468.48 million, with a mean of Rs 517.49 million and standard deviation of Rs 65.84 million and stood fourth. Export of leather goods ranges from Rs 873.3 million to Rs 1434.24 million, with a mean of Rs 1186.24 million and standard deviation of Rs 242.17 million and stood fifth. The export of Saddlery and harness ranges from Rs 92.15 million to 159.35 million, with a mean of Rs 126.69 million and standard deviation of Rs 29.24 million and stood sixth. And the export of non-leather footwear ranges from Rs 43.53 million to Rs 392.63 million, with a mean of Rs 199.61 million and standard deviation of Rs 126.82 million and stood seventh. Finally the export trade of leather and leather products in India ranges from Rs 3598.64 million to Rs 5691 million, with a mean of Rs 5276.11 million and standard deviation of Rs 1080.64 million. From the above tabular it is clear that the export of Leather footwear has tremendous growth than other leather goods and products. Saddlers and harness are the least export earner among the all other leather products. This cumulative value of leather and leather product exports are taken as a variable to testify the study objective.

Table 1 also gives the relevant details whether the commodity-wise export performance of leather goods in India differed significantly and whether the commodity-wise export

differed across the years. To testify this argument two-way ANOVA was used.

**Two sets of Null Hypothesis**

Set-1:H0 There is no significant difference in the values of commodity-wise export performance of leather goods in India  
Set-2:H0 There is no significant difference in the values of commodity-wise export performance of leather goods during the period of 2008-09 to 2018-19.

Table 2 ANOVA

	Sum of squares	df	Mean square	F-value	P-value	F crit
<b>Between column</b>	2504297	6	41738	61.49	8.709	2.25
<b>Within Row</b>	1833000	10	18330	2.701	0.008	1.99
<b>Residual</b>	4072030	60	67867			
<b>Total</b>	3094800	76				

Source: Computed  
Significant at 5% level

**VIII. RESULT**

Set-1: Ho: The null hypothesis is rejected as the calculated value of 'F' (61.49) is more than the critical value of 'F' (2.254) at 5% level of significant. Hence, it is concluded that there is a significant difference in the values of commodity-wise export performance of leather goods in India.

Set-2: Ho: The calculated value of 'F' (2.701) is more than the critical value of 'F' (1.992), so the null hypothesis is rejected. Hence there is a significant difference in the values of commodity-wise export of leather goods during the period of 2008-09 to 2018-19.

TABLE 3 FDI EQUITY INFLOW ON LEATHER AND LEATHER GOODS (VALUE IN MILLION US\$)

Year	2008-2009	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>US million</b>	3.32	5.06	9.26	8.3	46.70	6.14	34.21	17.13	2.30	22.00	4.52

Source: Department of Industrial Policy and Promotion, FDI statistics

Table 3, inferred the amount of foreign investment inflow in leather industry for 2008 to 2018. This table shows the cumulative annual value of FDI inflow in leather and leather

product exports in India. This sum of equity inflow has taken as another variable to conduct analysis.



**Correlation**

To find out the significant interrelation between the two variables (leather industry FDI inflow and export of leather and leather products) correlation analysis was carried out.

Table 4 Correlation Analysis

		Leather industry FDI inflow 2008-18	India's export of leather & leather products
<b>Leather industry FDI inflow 2008-18</b>	<b>Pearson Correlation</b>	1	.250
	<b>Sig. (2-tailed)</b>		.459
	<b>Sum of Squares and Cross-products</b>	2086.796	40870.175
	<b>Covariance</b>	208.680	4087.018
	<b>N</b>	11	11
<b>India's export of leather &amp; leather products</b>	<b>Pearson Correlation</b>	.250	1
	<b>Sig. (2-tailed)</b>	.459	
	<b>Sum of Squares and Cross-products</b>	40870.175	12845594.089
	<b>Covariance</b>	4087.018	1284559.409
	<b>N</b>	11	11

Source: Computed

Significant at 0.05% level

**Interpretation**

Table 4, exhibits the the relationship between the two variables (leather industry inflow and export of leather and leather products). Correlation value is .459 which is more than 0.05 levels, and through this testimony it reveals that the leather and leather products export not depends on FDI inflow in leather industry.

**IX. FINDINGS AND SUGGESTIONS**

The research paper found that the compound annual growth rate of export performance of leather and leather products was 4.25 % which is a welcome trend. It is found that the export of leather footwear products has its residual growth level during the period 2014-2018.

This study found that there is a significant difference in the values of commodity wise export of leather and leather products during the period 2008-2009 to 2018-2019.

The trade performance with regard to the trend inflow of FDI was found better except the year 2016.

Through the analysis it is found that the correlation value is 0.459. hence there is no positive relationship found between the FDI inflow and leather and leather products export performance. And the analysis proves that the two variable has no significant relationship and foreign investment has no dominance on leather exports performance in India.

Since foreign direct investment not influencing the leather and leather products export trade , the government should have an contingency plan to buffer the industry from financial plight. And also the councils and ministries like CLE, CLRI etc. should provide the awareness among the exporters society and should exempt them from tariffs and taxes to liberalize more the leather export industry in India.

**X. CONCLUSION**

In recent, foreign direct investment in India influenced many sectors like housing, telecommunication, computer and automobile sectors and stood as major contributor for the economical and GDP growth, whereas the above study is

made on impact of FDI on leather export performance of India. This research work, through the complete study and analysis, concludes that there is no significant relationship between foreign direct investment and leather and leather product export performance, and found that both the variables are not influencing each other. There is an actual perception that only FDI attracts the industries growth as well as economic growth which is a fictitious. The growth and development of any sector or industry doesn't controlled only by foreign investment. There are few more attributes which decide the growth of the sectors like labor, infra and market size etc.

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